

BEFORE THE TENNESSEE REGULATORY AUTHORITY

NASHVILLE, TENNESSEE

August 3, 2000

REC'D TN
REGULATORY AUTH.

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OFFICE OF THE
EXECUTIVE SECRETARY

IN RE:

**ANTIOCH WATER COMPANY
COMPLIANCE AUDIT**

)
)
) **Docket No. 99-00584**
)

**NOTICE OF FILING BY ENERGY AND WATER DIVISION OF THE TENNESSEE
REGULATORY AUTHORITY**

Pursuant to Tenn. Code Ann. §§ 65-4-104, 65-4-111 and 65-3-108, the Energy and Water Division of the Tennessee Regulatory Authority gives notice of its filing of the Antioch Water Company ("Antioch") Compliance Audit Report in this docket and would respectfully state as follows:

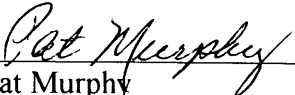
1. The present docket was opened by the Authority to hear matters arising out of Antioch's petition to increase its rates. At the rate hearing held on May 9, 2000, the Authority Staff was directed to perform a compliance audit of Antioch.
2. On June 13 and 14, 2000, the Energy and Water Division conducted an on-site audit of the Company.
3. Subsequent thereto, the Energy and Water Division issued its preliminary compliance audit report to the Company, and the Company responded thereto.

POSTED
8/3/00

4. The preliminary compliance audit report was modified to reflect the Company's responses and a final compliance audit report (the "Report") resulted therefrom. The Report is attached hereto as Exhibit A and is fully incorporated herein by this reference. The Report contains the audit findings of the Energy and Water Division, the Company's responses thereto and the recommendations of the Energy and Water Division in connection therewith.

5. The Energy and Water Division hereby files its Report with the Tennessee Regulatory Authority for deposit as a public record and approval of the recommendations and findings contained therein.

Respectfully Submitted:



Pat Murphy
Energy and Water Division of the
Tennessee Regulatory Authority

CERTIFICATE OF SERVICE


I hereby certify that on this 3 day of August, 2000, a true and exact copy of the foregoing has been either hand-delivered or delivered via U.S. Mail, postage pre-paid, to the following persons:

Mr. K. David Waddell
Executive Secretary
Tennessee Regulatory Authority
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Nashville, TN 37243

Mr. J. Gilbert Parrish, Jr.
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605 Court Street
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Mr. Ted R. Fields, Partner
Antioch Water Company
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Antioch Water Company
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Buchanan, TN 38222


Pat Murphy

COMPLIANCE AUDIT REPORT

OF

ANTIOCH WATER COMPANY

DOCKET NO. 99-00584

PREPARED BY

TENNESSEE REGULATORY AUTHORITY

ENERGY AND WATER DIVISION

AUGUST 2000

EXHIBIT A

COMPLIANCE AUDIT
ANTIOCH WATER COMPANY

DOCKET NO. 99-00584

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I. INTRODUCTION

The subject of this audit is Antioch Water Company's ("Company" or "Antioch") compliance with the Rules and Regulations of the Tennessee Regulatory Authority ("TRA" or the "Authority"). At the May 9, 2000 hearing to consider the Company's petition for a rate increase, the Authority's Staff was directed to perform a compliance audit of the Company and report its findings and recommendations to the Authority.

II. BACKGROUND

Antioch Water Company is a small water system located in Antioch Harbor, a residential retirement community near Paris, Tennessee in Henry County. It is owned equally by two partners, Ted R. Fields and Randy C. Allen. Antioch currently has approximately 244 customers

On August 11, 1999, Antioch filed a petition with the TRA requesting an increase in its rates. The Company requested a 142% increase from a \$15 flat rate per month to \$36.30 flat rate per month. This is the Company's first request for an increase since purchasing the water system in 1993.

The TRA Staff issued several data requests to the Company for additional information from September 22, 1999 to March 15, 2000. The rate request was originally scheduled to be heard on March 14, 2000. However, at Antioch's request, the hearing was postponed, and was ultimately held on May 9, 2000.

Several areas of concern arose during the hearing. These areas addressed the Company's compliance with the Uniform System of Accounts ("USOA"), a personal loan to one of the partners that had not been repaid, the amount of notice given to Antioch's customers regarding its petition for a rate increase, and other general concerns expressed by those customers in attendance at the hearing.

As a result, the Authority determined that a decision on Antioch's petition should be delayed until three specific items are received by the Authority. Those items include: a loan repayment schedule from Mr. Ted Fields detailing how the loan is to be repaid with interest, an Engineer's Report containing an estimate of the necessary cost to bring Antioch's water system into compliance with State requirements, and a Compliance Report from the Authority's Staff.

In response to the Authority's Order (attached as Exhibit 9) resulting from the above proceeding, the Authority Staff conducted an on-site audit of the Company's books and records at the Company's accountant's office located at 3975 Hwy. 79 North in Paris, Tennessee. The Staff's findings and recommendations resulting from the audit can be found in section.V. of this report.

III. JURISDICTION OF THE TENNESSEE REGULATORY AUTHORITY

Tennessee Code Annotated (T.C.A.) gave jurisdiction and control over public utilities to the Tennessee Regulatory Authority. T.C.A. §65-4-104 states that:

The [A]uthority has general supervisory and regulatory power, jurisdiction, and control over all public utilities, and also over their property, property rights, facilities, and franchises, so far as may be necessary for the purpose of carrying out the provisions of this chapter.

Further, T.C.A. §65-4-105 grants the same power to the Authority with reference to all public utilities within its jurisdiction as chapters 3 and 5 of Title 65 of the T.C.A. have conferred on the Department of Transportation's oversight of the railroads or the Department of Safety's oversight of transportation companies. By virtue of T.C.A. §65-3-108, this power includes the right to audit:

The department is given full power to examine the books and papers of the companies, and to examine, under oath, the officers, agents, and employees of the companies and any other persons, to procure the necessary information to intelligently and justly discharge its duties and carry out the provisions of this chapter and chapter 5 of this title.

The Energy and Water Division of the TRA is responsible for auditing those companies under the Division's jurisdiction to ensure that each company is abiding by Tennessee statute as well as the Rules and Regulations of the Authority. Pat Murphy and David McClanahan of the Energy and Water Division performed this audit.

IV. SCOPE OF AUDIT

We examined the books and records of Antioch Water Company for the twelve months ended December 31, 1999, and conducted tests of accounts as we considered necessary to determine if the Company is following the Uniform System of Accounts for Class C water utilities along with other TRA rules, regulations, and directives.

We then developed schedules showing the Company's correct level of income, expenses, plant, depreciation, and rate base for the year ended December 31, 1999. These schedules are attached as Exhibit 1 through Exhibit 4 to this report.

V. AUDIT FINDINGS

FINDING #1:

Exception

The Company does not keep its books in accordance with the Uniform System of Accounts.

Discussion

TRA Rule 1220-4-1-.11(1)(g) for Class A, B, and C water companies requires utilities to follow the Uniform System of Accounts (USOA) as adopted and amended by the National Association of Regulatory Utility Commissioners (NARUC). This uniform record keeping insures the integrity, reliability and comparability among similar companies of financial data contained in financial reports submitted to the Authority. It provides the TRA one of its most useful regulatory tools for establishing just and reasonable rates. We noted the following exceptions to the USOA:

- a. The Company's chart of accounts does not comply with the USOA.
- b. The Company maintains its accounts on a cash basis, while the USOA requires accrual accounting.¹
- c. Many entries in the Company's books are not kept "in such a manner to support fully the facts pertaining to such entries."²

Recommendation

We recommend that the Company make the necessary changes in its accounting methods and procedures to comply with the Uniform System of Accounts for Class C Water Utilities, beginning with calendar year 2000. We strongly urge the partners and their accountant to attend the free procedural workshop to be presented by the TRA Staff. Compliance with the USOA will be one of the many topics addressed. Personal invitations will be sent out to announce the time and place.

Company Response

We agree.

¹ National Association of Regulatory Utility Commissioners "1996 Uniform System of Accounts for Class C Water Utilities", Accounting Instructions, page 8, section 2., paragraph A.

² National Association of Regulatory Utility Commissioners "1996 Uniform System of Accounts for Class C Water Utilities", Accounting Instructions, page 8, section 2., paragraph B.

FINDING #2:

Exception

In conjunction with Finding #1, we discovered that a number of expenses were misclassified.

Discussion

Despite the fact that the Company is not using the chart of accounts as specified in the USOA, operating expenses were reported on the annual report according to the NARUC accounts. The accountant did not have available for us a cross-reference between the Company's ledger and the amounts reported on the annual report. Therefore, we reviewed each transaction for the year and classified the operating expenses according to the USOA chart of accounts. See Exhibit 1 attached to this report for the Staff's revised income statement.

Recommendation

As stated in Finding #1, we recommend converting the Company's chart of accounts to the USOA chart of accounts beginning in the calendar year 2000. Careful attention should be given to recording expenses in the correct account.

Company Response

We agree.

FINDING #3:

Exception

Interest on the personal loan to Ted Fields, partner, has not been recorded on the Company books. However, the full amount of the loan was repaid on June 1, 2000.

Discussion

As determined in the May 9 hearing, a personal loan was made to Ted Fields in the amount of \$1,500. The date of the loan was October 27, 1997. At the time of the hearing, no payment on the principle had been made and no interest computed. The Authority ordered Mr. Fields to submit a repayment schedule with interest, showing how the loan would be repaid.³ As stated above, the loan was repaid on June 1, 2000. Mr. Fields provided us with the deposit receipt to document the repayment. He has since submitted to the Authority a sworn affidavit as proof of the repayment. In accordance with the Authority's Order (attached as Exhibit 9), we are providing a schedule showing the calculation of interest due on the loan (see Exhibit 6). The interest rates applied are the rates the Staff uses in calculating the interest on unrefunded balances in the "Refund Due Customers" account for gas utilities. The method prescribed for computing these rates is found in the Authority's Rule 1220-4-7-.03(1)(b)2.(vii).

Recommendation

The Staff calculated \$355.12 in interest due on the \$1,500 personal loan. We recommend that Mr. Fields remit this amount to the Company as soon as possible.

Company Response

We agree.

³ Authority Order, dated July 5, 2000, page 4, paragraph 2.

FINDING #4:

Exception

The Company has not removed from the plant accounts assets that are no longer in service.

Discussion

During the on-site visit, we asked the partners to show us the various plant assets that were on the Company's books. Five of the listed assets were either missing or no longer used in the operation of the water system. These retirements were not reported to the accountant and taken off the books. We have made the appropriate adjustments to the plant accounts and the corresponding accumulated depreciation. See Exhibit 2 and Exhibit 3 for the proper level of plant in service and accumulated depreciation at December 31, 1999.

We also discovered that the two new pumps that were purchased in 1999 were not reported to the accountant and placed on the books. We verified the dates of purchase and original cost and made these adjustments as well on our Exhibit 2 and Exhibit 3.

Recommendation

We recommend that the partners meet with the accountant and make sure the retirements noted and the two new additions have been recorded on the Company's books. Also, in the future, the partners should advise their accountant in a timely manner whenever an asset is retired or new asset purchased. The USOA addresses the capitalization level for equipment.⁴

Company Response

We agree.

⁴ National Association of Regulatory Utility Commissioners "1996 Uniform System of Accounts for Class C Water Utilities", Accounting Instructions, page 9, section 4.

VI. STAFF SUMMARY

In order for us to better understand the condition of the water system and the needs of the Company, we arranged for Brian Caton with the Tennessee Division of Water Supply in Jackson, Tennessee to join us in Paris, Tennessee for a joint meeting with the partners. Mr. Caton is responsible for the on-site sanitary inspections that are performed every 2 to 5 years. He is familiar with the system and the findings that have been noted in his reports. He provided us with Antioch's latest report, dated February 4, 1998, and attached to this report as Exhibit 7. As a result of our discussions and visit to the plant site, we are providing a schedule showing the capital improvements that the Company proposes and what items we have concluded are needed immediately (see Exhibit 5).

The water boxes can be replaced over time. We discussed the feasibility of installing meters at the time of the replacement, so that a transition to a metered rate design could be made in a future rate case. It is our understanding that the installation of meters could be done with only a small increase in cost per box. As per the TRA's Order⁵, the Company retained an Engineer (at a cost of \$1,000) to present the Authority with a cost estimate to bring Antioch into compliance with State requirements. The Engineer's Report, submitted to the Authority on July 5, 2000 is attached as Exhibit 8. Using his lowest estimate on installing metered boxes, we have shown the total cost to be approximately \$75,000 versus \$62,500 proposed by the Company for unmetered boxes.

Also, as part of this audit, we contacted the Central Office in Nashville to inquire about the results of the water quality tests. We were told the water quality of Antioch meets the State's standards.

In summary, we conclude that the Company is doing a good job supplying water to the residents of Antioch Harbor retirement community. We found no evidence of intentional violations of TRA Rules and Regulations. The partners and their accountant were cooperative and forthcoming to all our inquiries. The physical plant is indeed in disrepair from age and needs upgrading to meet the recommendations of the Tennessee Division of Water Supply. A set of pictures of the plant taken during the on-site visit is on file in the Energy and Water Division at the TRA.

We also conclude that the partners have limited experience in the regulated utility environment. They need to place a higher priority on keeping good records. They also need to maintain a closer relationship with their accountant to assure that the financial statements presented to the TRA are in accordance with all the rules and requirements of the Authority. The TRA Staff will be presenting a procedural workshop in the near future for all regulated gas, water and electric utilities. We strongly recommend that the partners and their accountant make plans to attend.

⁵ Authority Order, dated July 5, 2000, page 4, paragraph 3.

EXHIBIT 1

Antioch Water Company Income Statement For Year-Ended December 31, 1999

| NARUC Acct. No. | | Annual Report | A/ Company Records | B/ Debit | Credit | TRA Staff Revised | C/ |
|--------------------------|-------------------------------------|------------------|--------------------------|----------------|----------------|----------------------|-------|
| Gross Revenue: | | | | | | | |
| 460.1 | Unmetered Res. Water Sales | 46,578 | 46,578 | | | 46,578 | |
| 474.0 | Other Water Revenues | - | - | | | - | |
| 408.0 | State Sales Taxes | 4,022 | 4,022 | | 4,022 | - | H/ |
| | Total Gross Revenue | 50,600 | 50,600 | | | 46,578 | |
| 601.0 | Salaries & Wages - Employees | - | - | | | - | |
| 603.0 | Salaries & Wages - Officers, Etc. | - | - | | | - | |
| 604.0 | Employee Pensions & Benefits | - | - | | | - | |
| 610.0 | Purchased Water | - | - | | | - | |
| 615.0 | Purchased Power | 1,169 | 1,120 | | 90.71 | 1,029 | D/ |
| 616.0 | Fuel for Power Production | 166 | - | | | - | |
| 618.0 | Chemicals | 86 | - | 150.06 | | 150 | D/ |
| 620.0 | Materials and Supplies | 5,951 | 5,071 | 53.23 | 1558.1 | 3,566 | D/ E/ |
| 630.0 | Contractual Services - Billing | - | - | | | - | |
| 631.0 | Contractual Services - Professional | 7,620 | 5,379 | | 566.91 | 4,812 | D/ |
| 635.0 | Contractual Services - Testing | - | 38 | 162.31 | 37.8 | 162 | D/ |
| 636.0 | Contractual Services - Other | - | 4,600 | 155.98 | | 4,756 | D/ |
| 640.0 | Rents | - | - | | | - | |
| 650.0 | Transportation Expenses | 3,426 | 166 | 761.5 | | 927 | D/ |
| 655.0 | Insurance Expense | 619 | 619 | 25 | | 644 | D/ |
| 665.0 | Regulatory Commission Expenses | - | - | | | - | |
| 670.0 | Bad Debt Expense | - | - | | | - | |
| 675.0 | Miscellaneous Expenses | 2,102 | 1,448 | 604 | 240 | 1,812 | D/ F/ |
| | Operation Expenses | 21,139 | 18,440 | 1,912 | 2,494 | 17,859 | |
| 403.0 | Depreciation Expense | 4,345 | 4,345 | | 448 | 3,897 | G/ |
| 236.0 | Taxes Other Than Income | | | | | | |
| | Property Tax | 1,423 | 1,423 | | | 1,423 | |
| | TRA Inspection Fee | - | - | 163 | | 163 | D/ |
| | State Sales Tax | 4,010 | 4,010 | | 4,010 | - | H/ |
| | Total Operating Expenses | 30,917 | 28,218 | 2,075 | 6,952 | 23,342 | |
| | NET OPERATING INCOME | 19,683 | 22,382 | (2,075) | (6,952) | 23,236 | |
| Other Income: | | | | | | | |
| 419.0 | Interest Income | 129 | 129 | | | 129 | |
| Other Deductions: | | | | | | | |
| 427.0 | Interest Expense | 345 | 345 | | | 345 | |
| | NET INCOME | 19,467 | 22,166 | (2,075) | (6,952) | 23,020 | |

A/ Income Statement as filed in Antioch Water Company's 1999 Annual Report. Company categorized expenses according to the NARUC Accts. for expenses as required in the Annual Report.

B/ Revised expenses as reflected in Company's records. Staff attempted to cross-reference with the NARUC Accts.

C/ Income Statement as revised by TRA Staff during Compliance Audit.

D/ Expenses reclassified to satisfy the Uniform System of Accounts.

E/ \$223 in non-utility expense was eliminated.

F/ \$195 in non-utility expense was eliminated.

G/ Depreciation expense revised to reflect the retirement of some plant equipment and the purchase of 2 pumps during 1999.

H/ For regulatory purposes, sales taxes collected and paid should not be included on the income statement as income and expense.

EXHIBIT 2

ANTIOCH WATER COMPANY PLANT IN SERVICE BALANCE

| | Acquire Date | Life | Plant Balance 12/31/1998 | Year 1999 Additions B/ | Year 1999 Retirements A/ | Plant Balance 12/31/1999 |
|--------------------------|-----------------|------|--------------------------------|---------------------------|-----------------------------|--------------------------------|
| 1979 Ford Pickup | 03/31/1993 | 5 | 3,000 | - | 3,000 | - |
| 10 ft. Utility Trailer | 03/31/1993 | 5 | 1,000 | - | - | 1,000 |
| 12 ft. Utility Trailer | 03/31/1993 | 5 | 2,400 | - | - | 2,400 |
| Backhoe with Trencher | 03/31/1993 | 5 | 10,000 | - | 10,000 | - |
| One-ton Truck | 10/18/1993 | 5 | 1,520 | - | - | 1,520 |
| Pumphouse | 03/31/1993 | 39 | 8,000 | - | - | 8,000 |
| File Cabinet | 01/26/1996 | 7 | 107 | - | - | 107 |
| Various Handtools | 03/31/1993 | 15 | 1,800 | - | - | 1,800 |
| Elec. Testing Tool | 03/31/1993 | 15 | 250 | - | - | 250 |
| Lines and Taps | 03/31/1993 | 15 | 32,600 | - | - | 32,600 |
| 4 Wells with No Pumps | 03/31/1993 | 15 | 7,500 | - | 7,500 | - |
| Tamper | 03/31/1993 | 5 | 500 | - | 500 | - |
| Pumps and Piping | 03/31/1993 | 15 | 15,000 | - | - | 15,000 |
| Fuse Box | 09/25/1993 | 15 | 240 | - | - | 240 |
| Chemical Feedpump | 10/28/1993 | 15 | 251 | - | - | 251 |
| Kabota Tractor | 04/26/1996 | 5 | 17,500 | - | - | 17,500 |
| Generator | 03/31/1993 | 5 | 2,000 | - | 2,000 | - |
| Salestax-Tractor | 01/01/1997 | 5 | 816 | - | - | 816 |
| Pump | 04/29/1999 | 10 | - | 1,344 | - | 1,344 |
| Pump | 05/05/1999 | 10 | - | 1,344 | - | 1,344 |
| Improvements | Year 2000 | 10 | - | - | - | - |
| Gross Plant | | | 104,484 | 2,687 | 23,000 | 84,171 |
| Accumulated Depreciation | | | <u>54,662</u> | | | <u>40,184</u> |
| Net Plant | | | <u>49,822</u> | | | <u>43,987</u> |

A/ These retirements were discovered during TRA Staff's compliance audit. Owners did not have information on dates of retirement.

B/ These pumps were part of the improvement list the Company filed with its rate case petition.

EXHIBIT 3

ANTIOCH WATER COMPANY DEPRECIATION SCHEDULE

| | | Acquire Date | Original Cost | Life | Accumulated Depreciation 12/31/1998 | Depreciation Expense 1999 | Accumulated Depreciation 12/31/1999 |
|------------------------|----|-----------------|------------------|------|---|---------------------------------|---|
| 1979 Ford Pickup | A/ | 03/31/1993 | 3,000 | 5 | 3,000 | - | 3,000 |
| 10 ft. Utility Trailer | | 03/31/1993 | 1,000 | 5 | 1,000 | - | 1,000 |
| 12 ft. Utility Trailer | | 03/31/1993 | 2,400 | 5 | 2,400 | - | 2,400 |
| Backhoe with Trencher | A/ | 03/31/1993 | 10,000 | 5 | 10,000 | - | 10,000 |
| One-ton Truck | | 10/18/1993 | 1,520 | 5 | 1,520 | - | 1,520 |
| Pumphouse | | 03/31/1993 | 8,000 | 39 | 1,179 | 205 | 1,384 |
| File Cabinet | | 01/26/1996 | 107 | 7 | 60 | 13 | 73 |
| Various Handtools | | 03/31/1993 | 1,800 | 15 | 690 | 120 | 810 |
| Elec. Testing Tool | | 03/31/1993 | 250 | 15 | 97 | 17 | 114 |
| Lines and Taps | | 03/31/1993 | 32,600 | 15 | 12,496 | 2,173 | 14,669 |
| 4 Wells with No Pumps | A/ | 03/31/1993 | 7,500 | 15 | 2,875 | - | 2,875 |
| Tamper | A/ | 03/31/1993 | 500 | 5 | 500 | - | 500 |
| Pumps and Piping | | 03/31/1993 | 15,000 | 15 | 5,750 | 1,000 | 6,750 |
| Fuse Box | | 09/25/1993 | 240 | 15 | 84 | 16 | 100 |
| Chemical Feedpump | | 10/28/1993 | 251 | 15 | 87 | 17 | 104 |
| Kabota Tractor | | 04/26/1996 | 17,500 | 5 | 10,500 | - | 10,500 |
| Generator | A/ | 03/31/1993 | 2,000 | 5 | 2,000 | - | 2,000 |
| Salestax-Tractor | | 01/01/1997 | 816 | 5 | 424 | 157 | 581 |
| Pump | | 04/29/1999 | 1,344 | 10 | - | 90 | 90 |
| Pump | | 05/05/1999 | 1,344 | 10 | - | 90 | 90 |
| | | | <u>107,171</u> | | <u>54,662</u> | <u>3,897</u> | <u>58,559</u> |
| | | | | | | | Less Accum. Depreciation for Retirements |
| | | | | | | | <u>18,375</u> |
| | | | | | | | <u>40,184</u> |

A/ During Staff's compliance audit, Staff discovered that these plant items were no longer in service.

EXHIBIT 4

| |
|--|
| ANTIOCH WATER COMPANY RATE BASE |
|--|

| | Year Ended 12/31/1999 | |
|--------------------------|--------------------------|----|
| Utility Plant in Service | 84,171 | A/ |
| Working Capital | <u>1,488</u> | B/ |
| Total Additions | <u>85,659</u> | |
| Accumulated Depreciation | 40,184 | C/ |
| Customer Deposits | <u>5,100</u> | D/ |
| Total Deductions | <u>45,284</u> | |
| Rate Base | <u>40,375</u> | |

A/ Exhibit 2

B/ One-twelfth of operating expenses

C/ Exhibit 3

D/ Balance at 12/31/99

EXHIBIT 5

ANTIOCH WATER COMPANY IMPROVEMENT LIST

| Item Description | Estimated Cost | Capitalized | Expensed | Needed Immediately | B/ | Over Time |
|--|----------------|----------------|--------------|--------------------|----|---------------|
| Alternative Power Source | 5,000 | 5,000 | | 5,000 | | - |
| Rebuild Chlorination System | 900 | | 900 | | | |
| Backup Motor & Pump | 2,500 | 2,500 | | 2,500 | | - |
| Repair Existing Motor and Pumps | 2,500 | A/ 2,500 | | | | |
| Replace Gate Valves, Replace Impellar Housing on Pump Motors | 800 | | 800 | | | |
| Pump House Repair | 4,000 | | 4,000 | | | |
| Larger Pressure Tank (5,000 gal.) | 8,900 | 8,900 | | 8,900 | | - |
| Larger Air Compressor (see above) | 6,250 | 6,250 | | 6,250 | | - |
| Computerize Bookkeeping | 3,000 | 3,000 | | 3,000 | | - |
| Water Box Valve Replacement | 62,500 | 62,500 | | | | 62,500 C/ |
| Cut-Off Valves (Repair & Replace) | 12,000 | 12,000 | | 12,000 | | - |
| Six Additional Flush Valves | 3,000 | 3,000 | | 3,000 | | - |
| Rebuild Electrical System | 6,500 | 6,500 | | 6,500 | | - |
| Total | <u>117,850</u> | <u>112,150</u> | <u>5,700</u> | <u>47,150</u> | | <u>62,500</u> |

A/ 2 new pumps were purchased in 1999 eliminating the need for this improvement.

B/ As determined from discussions with owners and Brian Caton of the Tenn. Division Of Water Supply.

C/ Replacing valves can take place over time. Owners are considering installing meters at the time of replacement to facilitate transition to a metered based rate system. Estimated cost with meters (per Engineer's report at lowest estimate) is \$75,000 (250 boxes * \$300).

EXHIBIT 6

ANTIOCH WATER COMPANY CALCULATION OF INTEREST DUE ON PERSONAL LOAN

Amount: \$1,500
Loan Date: 10/27/1997
Repayment Date: 06/01/2000

| Month | Balance | Interest Rate | Interest |
|--------|----------|---------------|----------|
| Nov-97 | 1,500.00 | 8.50% | 10.63 |
| Dec-97 | 1,510.63 | 8.50% | 10.70 |
| Jan-98 | 1,521.33 | 8.50% | 10.78 |
| Feb-98 | 1,532.10 | 8.50% | 10.85 |
| Mar-98 | 1,542.95 | 8.50% | 10.93 |
| Apr-98 | 1,553.88 | 8.50% | 11.01 |
| May-98 | 1,564.89 | 8.50% | 11.08 |
| Jun-98 | 1,575.97 | 8.50% | 11.16 |
| Jul-98 | 1,587.14 | 8.50% | 11.24 |
| Aug-98 | 1,598.38 | 8.50% | 11.32 |
| Sep-98 | 1,609.70 | 8.50% | 11.40 |
| Oct-98 | 1,621.10 | 8.50% | 11.48 |
| Nov-98 | 1,632.59 | 8.50% | 11.56 |
| Dec-98 | 1,644.15 | 8.50% | 11.65 |
| Jan-99 | 1,655.80 | 8.17% | 11.27 |
| Feb-99 | 1,667.07 | 8.17% | 11.35 |
| Mar-99 | 1,678.42 | 8.17% | 11.43 |
| Apr-99 | 1,689.85 | 7.75% | 10.91 |
| May-99 | 1,700.76 | 7.75% | 10.98 |
| Jun-99 | 1,711.74 | 7.75% | 11.06 |
| Jul-99 | 1,722.80 | 7.75% | 11.13 |
| Aug-99 | 1,733.93 | 7.75% | 11.20 |
| Sep-99 | 1,745.12 | 7.75% | 11.27 |
| Oct-99 | 1,756.39 | 7.94% | 11.62 |
| Nov-99 | 1,768.02 | 7.94% | 11.70 |
| Dec-99 | 1,779.71 | 7.94% | 11.78 |
| Jan-00 | 1,791.49 | 8.29% | 12.38 |
| Feb-00 | 1,803.87 | 8.29% | 12.46 |
| Mar-00 | 1,816.33 | 8.29% | 12.55 |
| Apr-00 | 1,828.88 | 8.58% | 13.08 |
| May-00 | 1,841.95 | 8.58% | 13.17 |

Note: The interest rates used to calculate the interest due are the same rates the Staff uses in calculating the interest on un-refunded balances in the "Refund Due Customers" account for gas utilities. The method prescribed for computing these rates is found in the Authority's Rule 1220-4-7-.03(1)(b)2.(vii).

Total Interest Due 355.12



STATE OF TENNESSEE
DEPARTMENT OF ENVIRONMENT AND CONSERVATION
JACKSON ENVIRONMENTAL FIELD OFFICE
362 CARRIAGE HOUSE DRIVE
JACKSON, TENNESSEE 38305-2222

February 4, 1998

Mr. Randy Allen
Antioch Water Company
P. O. Box 1614
Paris, Tennessee 38242

RE: Sanitary Survey
Antioch Water System
PWSID #0000539
Henry County

Dear Mr. Allen:

Pursuant to the Tennessee Code Annotated, Section 68-221-707, Brian Caton of this office conducted a sanitary survey on January 14, 1998 of the waterworks system serving the Antioch Water Company. In accordance with the Procedures for Rating Public Water Systems, the facility received a numerical rating of 92, placing it among the State's "Approved" public water supplies.

For your compliance with adopted rules and regulations, the following comments are based on the findings at the time of the survey:

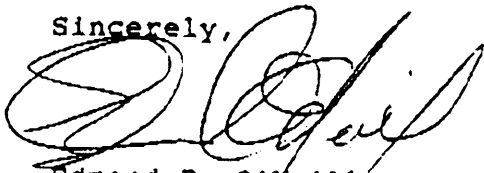
1. An alternate source of power is needed to operate system pumps in the event of a prolonged power outage. Elevated storage is not present in the system and regulations require that a method to meet average system demands during a power outage be in place. A generator with sufficient wattage to run your five horse pump must be present. This requirement should be met as soon as possible.
2. One five horse pump motor was down for repair or replacement. The required maintenance should be completed immediately to provide duplicate pumping capabilities.

Mr. Randy Allen
February 4, 1998
Page 2

3. All monthly operation reports should be submitted by the tenth of each month and copies kept on file.
4. The wellhead protection plan has been approved as required.
5. A bacteriological sampling plan is on file.

This office appreciates the courtesy shown to members of this staff. If you have any questions about this letter, please contact Brian Caton at (901) 661-6265.

Sincerely,



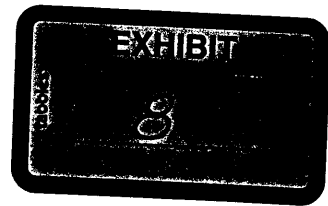
Edmond B. O'Neill
Manager, Jackson Field Office
Division of Water Supply

EBO\BTC\word\0205539

c: DWS

LAW OFFICES OF
J. GILBERT PARRISH, JR.
605 COURT STREET, SUITE 1
SAVANNAH, TENNESSEE 38372

J. GILBERT PARRISH, JR.
CARMA DENNIS MCGEE



TELEPHONE (901) 925-1966
FACSIMILE (901) 925-1130

RECEIVED
TN REG. AUTHORITY

JUL 5 2000

June 29, 2000

ENERGY & WATER DIVISION

Ms. Pat Murphy
Senior Financial Analyst
Tennessee Regulatory Authority
460 James Robertson Parkway
Nashville, TN 37243-0505

VIA FACSIMILE (615) 741-2336

Re: Antioch Water Company

Dear Ms. Murphy:

I am enclosing herewith the Engineers report. I received it by mail yesterday. After reviewing the same, if you have any questions, please do not hesitate to give me a call.

Very Truly Yours,

J. Gilbert Parrish, Jr.

JGP/rlb

Enclosure
cc: David Waddell

ROY HIXSON, PE
3109 HWY 25
COTTONTOWN, TENNESSEE 37048
PHONE/FAX 1-615-325-4313

ANALYSIS OF ANTIOCH WATER COMPANY
HENRY COUNTY, TENNESSEE

This is a statement of the Antioch Water Company's physical plant and operation for the purpose of determining a fair and equitable rate structure.

The Antioch Water Company is a privately owned system for the production and distribution of potable water which meets or exceeds the quality requirements of the Tennessee Department of Environment and Conservation (TDEC). There are 246 customers being served by this system. The system has 21,950 feet of 2" distribution line and 920 feet of 4" feed line with one well for supply capable of delivering 250 gallons per minute. Presently, there is a 1000 gallon pressure regulating tank with a chlorinating system. Each service is regulated by a 3/4 inch shut off valve. While it is true that the existing system does not meet current construction standards for water distribution systems, with loving care it has served the Antioch community for about 40 years.

I am sure that the continued viability of the system is in the best interest of everyone concerned.

In order to establish a rate structure which is workable, I have established the estimated cost of replacement in kind using cost of construction from several sources. Obviously, it is difficult to equate one set of circumstances without some variations.

| Installation cost: | Item | Rates Considered | Rate Used | Total |
|--------------------|----------------------------|------------------------|----------------------|-------------|
| | 21,950ft-2" line | \$3.00per ft—\$15.00 | \$4.00 rock free | \$87800.00 |
| | 920 ft-4" line | \$5.00 per ft.—\$18.00 | \$6.00 rock free | 5520.00 |
| | 246 boxes & valves | \$300—\$400 | \$250 with out meter | \$61500.00* |
| | Well & pumps | not available | | \$10,000.00 |
| | Chlorinator | " | | 1,000.00 |
| | Shelter for well equipment | | | 5,000.0 |
| | Computer | | | 3,000.00 |
| | Total | | | \$173820.00 |

* I did not find anyone who installs services without meters. The figure shown was derived by subtracting the cost of the meter from the installations I inquired about.

Historically, Antioch water Company has had an expenditure of \$6000.00 plus per year for supplies and back hoe Service. Since labor and materials are usually estimated to be about equal, it is safe to say that the maintenance cost of \$12,000.00 per year is realistic. Additionally, the task of monitoring the system (chlorinating, laboratory reports, drawing samples, purging lines,patroling lines for leaks and billing) must be accomplished on a regular basis. I estimate that on an average this will require 40 hours per week at \$25 per hour or \$1000.00 per month.

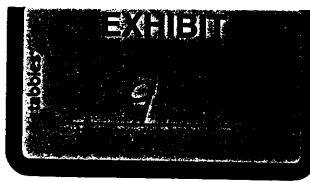
| | | |
|----------|--|-------------|
| SUMMARY: | Return on Investment—\$173820.00X .12===== | \$20858.40 |
| | Maintenance | \$12000.00 |
| | Operation | \$52000.00 |
| | Total | \$ 84858.00 |

On a monthly basis the rate structure should support a minimum of \$7071.50 or on a per tap basis a minimum of \$28.75 per month.

With the economy of scale, some utilities offer a cheaper rate while the American Water Works Association (AWWA) has found the typical two person household will use 240 gallons per day with a tap fee of \$29.42 per month. I believe this analysis of the financial aspects of the Antioch Water Company is based on sound engineering principles.

Signed
Roy Hixson, PE
TN Lic. 4236





BEFORE THE TENNESSEE REGULATORY AUTHORITY

NASHVILLE, TENNESSEE

RECEIVED
TN REG. AUTHORITY
JUL 5 2000

ENERGY & WATER DIVISION

JULY 5, 2000

IN RE:

PETITION OF ANTIOCH WATER
COMPANY TO INCREASE ITS RATES

)
)
)
)

DOCKET NO. 99-00584

**ORDER HOLDING IN ABEYANCE DECISION ON PETITION
PENDING COMPLIANCE BY ANTIOCH WATER COMPANY**

This matter came before the Authority for consideration of the Petition of Antioch Water Company ("Antioch") to increase its rates. Antioch's Petition was considered at a Hearing on May 9, 2000.

Antioch's Petition

On August 11, 1999, Antioch filed its Petition with the Authority. Attached to the Petition is the pre-filed testimony of Antioch's partners, Randy Allen and Ted R. Fields, as well as that of Jerry Bailey, an accountant. The Petition states that Antioch is a utility company with its principal place of business located at 11230 Highway 79 North, Buchanan, Tennessee 38222. Mr. Allen and Mr. Fields acquired the Antioch system in 1993. Antioch was granted its original Certificate of Public Convenience and Necessity ("CCN") by the Tennessee Public Service Commission ("TPSC") on April 16, 1996. Antioch serves approximately 245 residential customers in Henry County. Antioch's approved rate for water service is currently a flat rate of \$15.00 per month.

Antioch's Petition asserts that financial statements project a loss for 1999 and that numerous improvements are also necessary which will cost a total of approximately \$123,500.00. Antioch's partners also propose to begin receiving an annual salary from Antioch of \$22,720.00

each. On this basis, Antioch asks the Authority to approve a rate increase to a flat monthly rate of \$36.30, representing a 142% increase, and an increase in tap fees from \$500.00 to \$1,000.00.

Antioch's Hearing

A Hearing in this matter was originally scheduled for March 14, 2000. At Antioch's request, the Hearing was postponed. This matter ultimately came before the Authority at a Hearing on May 9, 2000. In response to the Public Notice of the Hearing, several ratepayers requested to and did appear at the Hearing on May 9, 2000.

At the Hearing, Antioch presented the testimony of Mr. Allen, Mr. Fields, and Mr. Bailey. These witnesses were questioned by the Directors, counsel for Antioch, and the Authority staff. They were also questioned by Charles Robertson, John Young, and William Pitts, who appeared on behalf of several Antioch customers who were in attendance. Mr. Robertson also made a statement and answered questions from the Directors. In addition, the Antioch customers in attendance submitted petitions and letters concerning Antioch's Petition as well as a set of photographs of the Antioch system.

At the Hearing, Antioch's witnesses supported Antioch's need for a large rate increase through testimony demonstrating that Antioch would have difficulty meeting its obligations to its customers using its present rates. Antioch's witnesses also testified that Antioch must make numerous repairs to its system required by the State of Tennessee, including providing an alternative power supply, upgrading the chlorination system, providing a backup pump, and installing a larger compressor. Antioch also proposes to replace a large number of valves and water boxes to allow it to shut off its customers' water when necessary, but Antioch's witnesses admitted that replacing the valves and water boxes is not required by the State.

Several matters of concern became apparent during the Hearing regarding Antioch's conduct of business. In the TPSC's June 27, 1996 Order in TPSC Docket No. 95-03172, granting

Antioch a CCN, Antioch was ordered to keep its books and records in accordance with the Uniform System of Accounts for Class C water companies. It appeared from the testimony at Antioch's Hearing that Antioch has not done so. Mr. Bailey stated that the financial statement submitted with Antioch's Petition was not an audit but only represented information given to him by Antioch and put in the form of a financial statement. He admitted that he did not know whether Antioch keeps its books in compliance with regulatory requirements.

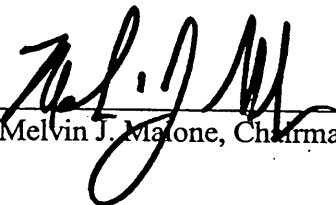
Concerns were also raised about a personal loan from Antioch to Mr. Fields. This loan was taken out approximately three years ago, it does not carry any interest, and Mr. Fields has made no repayments to Antioch on the principal amount.

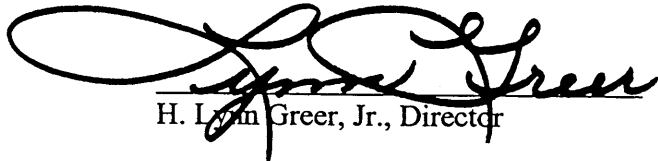
Antioch's customers expressed concern over the sufficiency of notice about the rate increase. Antioch put a notice of the increase in the local paper but only a short time before the Hearing date. The customers also noted a general lack of communication between Antioch and its customers. They expressed further concern and uncertainty about Antioch's cut-off policy and dissatisfaction with their water pressure, and they questioned the partners' practices with respect to reimbursement from Antioch for payment of the partners' expenses. Antioch has not retained an engineer to determine what is needed to improve its customers' water pressure.

The Authority determined that Antioch's Petition should be held in abeyance until three specific matters have been addressed. First, Antioch's partners are to submit to the Authority a loan repayment schedule showing how the loan to Mr. Fields is to be repaid, with interest, to Antioch. Second, Antioch is to retain an engineer and is to present the Authority an estimate of the costs of bringing Antioch into compliance with State requirements and providing adequate water pressure for its customers. Third, the Authority Staff is to perform a compliance audit of Antioch.

IT IS THEREFORE ORDERED THAT:

1. The Petition of Antioch Water Company for an increase in rates shall be held in abeyance;
2. Antioch's partners shall submit to the Authority a loan repayment schedule showing how the loan to Mr. Fields is to be repaid, with interest, to Antioch;
3. Antioch shall retain an engineer and shall present to the Authority a cost estimate for bringing Antioch into compliance with State requirements and providing adequate water pressure to its customers; and
4. The Authority Staff shall perform a compliance audit of Antioch.


Melvin J. Malone, Chairman


H. Lynn Greer, Jr., Director


Sara Kyle, Director

ATTEST:


K. David Waddell, Executive Secretary